

While the American Legislative Exchange Council applauds the FCC for investigating how to bring more choice to cable and satellite subscribers, we are deeply concerned about the Commission's focus and advocacy for the a la carte cable model. After careful review and research, we conclude that a la carte cable is the wrong approach to achieve this and most evidence points to it having a negative impact on the market and the consumer.

A la carte cable is an erroneous option because instead of bringing more choice and flexibility to consumers, it will do just the opposite. A la carte cable will bring higher channel prices to consumers, evaporate programming options, and be an ineffective substitute to existing parental controls.

Higher per channel price - While an a la carte cable offering may or may not lower a household's cable bill, it will certainly raise the current price per channel that a consumer pays. When a consumer buys in bulk or bundles services, they usually receive a lower per unit price than if they were to purchase them individually. Further more, it could be expected that a la carte would increase the marketing expenses of program networks since they would have to more actively advertise in order to have consumers select their channels. Licensing fees would also possibly increase in order to offset certain revenue losses, which would then in turn increase the channel price.

Less programming choices - A direct result from these increases in expenses and lost revenue would be the eventual failure of certain program networks, primarily the smaller networks that serve niche interests due to the limited/marginal demand associated with them (revenue from the limited demand would not be high enough to cover expenses). This would clearly reduce the choices in programming offered to consumers. For example, how many people would pay for CSPAN, Lifetime, DIY network, the Golf Channel, etc. individually? In addition, a la carte may prohibit the opportunity for new programming to be created because demand would have to be developed immediately and in many cases "sight unseen."

Ineffective parental control - Finally, there has been the

discussion that a la carte cable will improve parental control. It will allow families to create line-ups that are more favorable to family viewing. Certainly, the Disney channel and Cartoon Network would fall into this but there are many shows on ABC, FOX, TLC, Discovery channel, etc. that are inappropriate for children to watch. Need we forget that there is already a mechanism in place to provide such control—the V-chip. However, a 2004 Kaiser Family Foundation report cited that only 15% of all parents utilize it. Parents need to be better educated about what means exist to effectively regulate family viewing.

Furthermore, the FCC has issued two reports on the a la carte cable model that have had conflicting conclusions not just with each other but also with the Booz Allen Hamilton report, which they were based on. The FCC's "Initial Report" concluded that consumers would see their monthly bill increase between 14% and 30%. Subsequently, the "Further Report" revised those figures to a price change ranging from a 13% decrease to a 4% increase. The initial Booz Allen report predicted that consumers would see their bill increase 7% to 15%. Given the significant uncertainties with the reports themselves and a la carte's wide-ranging affect on cable prices, the risks are too great for government to gamble with respect to enacting mandates / regulation; two out of three reports establish that.

The FCC should not look to further regulate a sector but must promote healthy competition in it. Time and time again, we have seen competition to bring lower prices, more innovation, and more choice to the consumer. Competition and innovation such as digital TV and Video on Demand will also bring new business models that may make it more economically feasible to better cater to consumer demand.

If cable operators want to explore a la carte as a cable pricing option, they certainly should have that choice but it shouldn't be ordered so by the government. Competition, not the artificial influence from regulation, provides the natural market dynamic that is essential to the health of an industry as well as the promotion of fair pricing and more consumer choice. That is way a

la carte cable should be driven by the market and not mandated by the government.

References:

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Victoria Rideout, "Parents Media and Public Policy: A Kaiser Family Foundation Survey," Kaiser Family Foundation, 2004